

Message Text

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SUBJ: FOREIGN INVESTMENT CLIMATE AND STATISTICS

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1. INVESTMENT CLIMATE IN MALAYSIA

(A) GENERAL ASSESSMENT

A NUMBER OF SIGNIFICANT FACTORS HAVE IN THE PAST LED TO SUBSTANTIAL DIRECT FOREIGN INVESTMENT IN MALAYSIA. THESE INCLUDE: THE GOVERNMENT'S STATED POLICY OF ACTIVELY ENCOURAGING SUCH INVESTMENT; A LIBERAL SET OF INVESTMENT INCENTIVES; THE ABSENCE OF UNDULY BURDENSOME CONTROLS ON CAPITAL; AN HONEST AND BASICALLY EFFICIENT GOVERNMENT; RELATIVELY LOW WAGES, AND A SOPHISTICATED BUSINESS COMMUNITY. WITHIN THE PAST YEAR, HOWEVER, SEVERAL EVENTS HAVE OCCURRED WHICH HAVE CREATED SOME SENSE OF UNEASE AMONG FOREIGN INVESTORS IN MALAYSIA.

THESE INCLUDE: AN INCREASE IN THE LEVELS OF COMMUNIST TERRORISM IN THE COUNTRY; THE COMMUNIST TAKEOVER IN VIETNAM AND CAMBODIA; INCREASING PRESSURES TO MALAYSIANIZE STAFF

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(ESPECIALLY MIDDLE MANAGEMENT); DIFFICULTIES IN OBTAINING

WORK PERMITS, AND ESPECIALLY THE PASSAGE OF TWO LEGISLATIVE ACTS, THE PETROLEUM AMENDMENT ACT AND THE INDUSTRIAL COORDINATION ACT (SEE BELOW). ON BALANCE, HOWEVER, MALAYSIA REMAINS A RELATIVELY ATTRACTIVE LOCATION FOR FOREIGN INVESTMENT BUT POTENTIAL INVESTORS SHOULD CAREFULLY WEIGHT THE POSITIVE AND NEGATIVE FACTORS MENTIONED ABOVE BEFORE MAKING A DECISION ON INVESTMENT IN MALAYSIA.

(B) INCENTIVES

THE PRINCIPLE INCENTIVE OFFERED FOREIGN INVESTORS IS THAT OF PIONEER STATUS, GIVEN TO FIRMS OF SPECIAL INTEREST TO MALAYSIA. COMPANIES SUCCESSFUL IN OBTAINING PIONEER STATUS ARE GIVEN A TAX HOLIDAY FROM TWO TO EIGHT YEARS DEPENDING ON THE LEVEL OF INVESTMENT. FOR THOSE COMPANIES NOT GRANTED PIONEER STATUS, ALTERNATE INCENTIVES ARE LABOR UTILIZATION RELIEF FOR LABOR INTENSIVE FIRMS (2-5 YEARS TAX HOLIDAY) OR AN INVESTMENT TAX CREDIT FOR FIRMS MEETING CERTAIN CRITERION. IN ADDITION, MALAYSIA OFFERS SEVERAL TYPES OF EXPORT INCENTIVES.

(C) RESTRICTIONS

THE MALAYSIAN GOVERNMENT HAS RECENTLY AFFORMED THAT ITS BASIC POLICY IS TO REQUIRE THAT VIRTUALL ALL PROJECTS INVOLVING FOREIGN INVESTMENT SHOULD BE IN THE FORM OF JOINT VENTURES WITH MALAYSIANS. EXCEPTIONS TO THIS RULE WILL BE GIVEN ONLY IN SPECIAL CASES AND WITH THE APPROVAL OF THE MINISTRY OF TRADE AND INDUSTRY. BY 1990 THE GOVERNMENT EXPECTS THAT THE PERCENTAGE SHARE OF EQUITY HOLDINGS IN MALAYSIA BY FOREIGNERS WILL DECLINE FROM ITS PRESENT 60 PERCENT TO 30 PERCENT. AN EQUIVALENT 30 PERCENT WILL BE HELD BY BUMIPUTRAS (ETHNIC MALAYS) AND THE REMAINING 40 PERCENT BY OTHER MALAYSIANS. A STRONG POSSIBILITY EXISTS THAT THIS OWNERSHIP TARGET WILL BE IMPOSED ON INDIVIDUAL FIRMS

AS WELL AS THE ECONOMY AS A WHOLE. THE REQUIREMENT OF 30 PERCENT BUMIPUTRA EQUITY PARTICIPATION IS ALREADY IN EFFECT FOR NEW INVESTMENTS. OTHER RESTRICTIONS WHICH HAVE CREATED SOME DIFFICULTY FOR FOREIGN INVESTORS INCLUDE THE REQUIREMENT THAT 30 PERCENT OF A FIRM'S WORKFORCE, AT ALL LEVELS (INCLUDING MIDDLE MANAGEMENT), CONSIST OF BUMIPUTRAS, AND RESTRICTIVE POLICY ON WORK PERMITS FOR EXPATRIATE MANAGERS.

(D) OTHER FACTORS INFLUENCING FOREIGN INVESTMENT

(1) PERTROLEUM AMENDMENT ACT

PASSED IN EARLY APRIL, THIS ACT, IF IMPLEMENTED, WOULD ENABLE UNCLASSIFIED

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THE GOVERNMENT TO OBTAIN MANAGEMENT CONTROL OF COMPANIES IN THE PETROLEUM AND PETROCHEMICAL SECTORS FOR A MINIMAL CASH OUTLAY. MANY FIRMS BELIEVE THAT THIS WOULD CONSTITUTE NATIONALIZATION WITHOUT FULL COMPENSATION AND MIGHT SET A PRECEDENT FOR APPLICATION OT OTHER INDUSTRIES.

(2) INDUSTRIAL COORDINATION ACT

ALSO PASSED IN EARLY APR, THIS ACT REQUIRES ALL MANUFACTURING

FIRMS IN MALAYISA TO OBTAIN A ONE-TIME, REVOKABLE LICENSE FROM THE MINISTRY OF TRADE AND INDUSTRY. THE MINISTRY IS NOW DRAWING UP THE REGULATIONS FOR THIS LICENSE AND HAS RECENTLY OFFERED ASSURANCES OF COOPERATION TO THE PRIVATE SECTOR AND OF CONSIDERATION FOR THEIR LEGITIMATE NEEDS. THE EFFECT OF THE ACT IS MORE LIKELY TO BE FELT BY OLDER FOREIGN FIRMS AND NON-BUMIPUTRA FIRMS WHICH MAY NOT HAVE MET THE GOVERNMENTS EQUITY REQUIREMENTS AS MENTIONED ABOVE THAOFBY NEW INVESTORS, ALTHOUGH ALL EXISTING FIRMS WILL BE AUTOMATICALLY LICENSED.

(3) INTERNAL SECURITY

DUE TO THE VICTORY OF COMMUNIST FORCES IN INDO-CHINA, AND TO SOME RECENT LIMITED SUCESES BY LOCAL COMMUNIST TERRORISTS, SOME CONCERN HAS BEEN EXPRESSED REGARDING MALAYSIA'S ABILITY TO WITHSTAND THE COMMUNIST THREAT, THE EMBASSY BELIEVES THAT THE GOVERNMENT OF MALAYSIA HAS THE CAPABILITY TO HANDLE THE COMMUNISTS, AT THEIR PRESENT LEVEL OF ACTIVITY, AND THAT THEY DO NOT, AT PRESENT, CONSTITUTE A SR)US THREAT TO THE VIABILITY OF MALAYSIA.

(4) STATISTICS

THE MALAYSIAN GOVERNMENT DOES NOT HAVE STATISTICS AVAILABLE ON TOTAL FOREIGN INVESTMENT BY COUNTRY. THE EMBASSY HAS COLLECTED THE FOLLOWING STATISTICS ON U.S. INVESTMENT IN MALAYSIA.

U.S. INVESTMENT IN MALAYSIA (AS OF 12/31/74)

(MILLIONS OF U.S. DOLLARS)

SECTOR	AMOUNT	PCT OF TOTAL
PETROLEUM	255.8	55.6
MANUFACTURING	101.0	22.0
MINING	3.6	.1
OTHERS	100.6	21.9
TOTAL	461.0	

THE FOLLOWING STATISTICS ON FOREIGN INVESTMENT IN PIONEER UNCLASSIFIED

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COMPANIES, PROVIDED BY THE FEDERAL INDUSTRIAL DEVELOPMENT AUTHORITY, GOVERNMENT OF MALAYSIA, REPRESENT A GOOD PROXY OF THE RELATIVE POSITIONS HELD BY FOREIGN INVESTORS FROM DIFFERENT COUNTRIES. (MILLIONS OF MALAYSIAN \$)

COUNTRY	1973	1974	PCT INCREASE (73 - 74)
SINGAPORE	147.4	162.8	10
JAPAN	73.0	117.7	61
U.K.	90.0	93.4	3
U.S.	62.5	81.2	29

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